The General Rate of Profit

Capital Volume 3, Part 2, Conversion of Profit into Average Profit

The source of increase under capitalism is surplus value. This is the truth that is revealed in exhaustive detail in Capital, Volume 1, and it is not going to be contradicted here in Volume 3.

But the rate of what is called “profit” is not the increase by itself, but the increase in relation to all costs of production.

Marx's definition of the rate of profit is *"the ratio of surplus labour (*s*) to necessary labour plus the value of components and materials used in production (*v + c*) – the capitalist's costs of production."*

Labour power is paid for at cost, but yields more labour than is required to reproduce labour-power. The extra labour thus found (i.e. surplus labour) generates surplus value.

All other inputs such as materials, equipment and general overhead expenses are inert costs that have no regenerative power. They are simply consumed in production and their cost is passed on directly to form part of the commodity price of the resultant product.

Only labour can produce surplus value. All other inputs, even if their cost is passed on in full into the selling-price, neither add nor take away from profit, but go to reduce the overall <u>rate</u> of profit. When labour and the corresponding surplus-value it produces become a smaller proportion of the whole, the rate of profit on the whole outlay is less.

It follows that the only way that profit can be made, or increased, is by the employment of people, or more people. This is in turn is why the threat of employers to employ machinery instead of people is hollow. To make more money, the capitalist must generally employ more people.

The jargon used today is "labour-intensive" versus "capital-intensive". In a capital-intensive business, the costs of other

inputs are higher in proportion to the labour-power employed, and the rate of profit is consequently lower.

This is shown in the table given at the beginning of the well-known **Chapter 9 of Volume 3** (attached; download linked below).

This chapter is full of quite simple examples, interspersed with categorical general statements. It is readable to people with a business background.

In general, the chapter is about the development of the overall "economy" out of its individual-capitalist parts, so that we now enter the world of "financial markets", with an idea of what comes through from the basic relationships, and what begins to feed back from the overall (social) level so as to affect individual enterprises.

- **The above is to introduce the original reading-text: Capital Volume 3, Chapter 9, Formation of a General Rate of Profit.**
- **To download any of the CU courses in PDF files please click here.**